



**World Health  
Organization**

# **Raising Tobacco Taxes**

A Summary of Evidence from the NCI-WHO Monograph  
on the Economics of Tobacco and Tobacco Control

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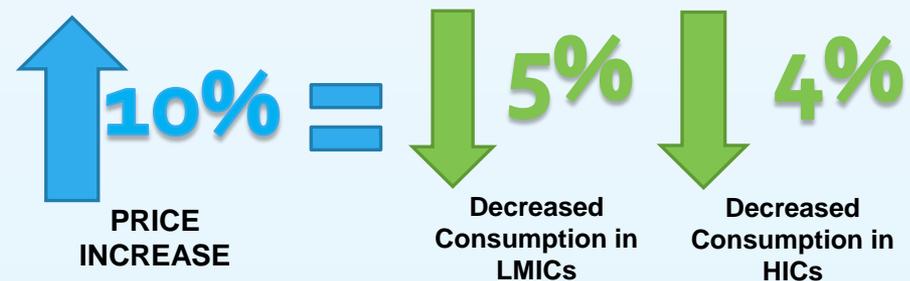
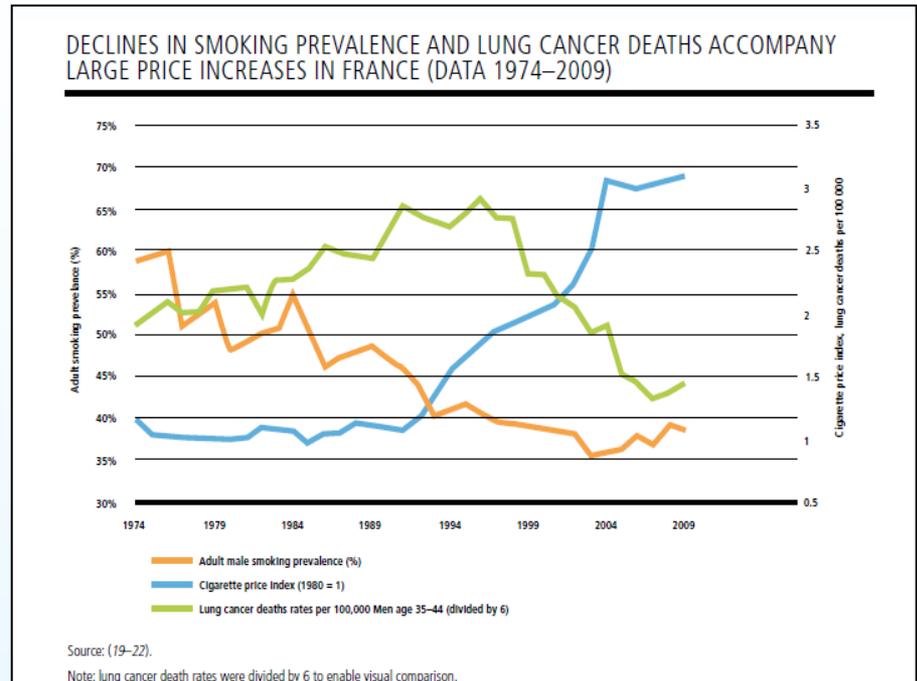
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World Health Organization

# Raising Tobacco Taxes: A Critical Strategy

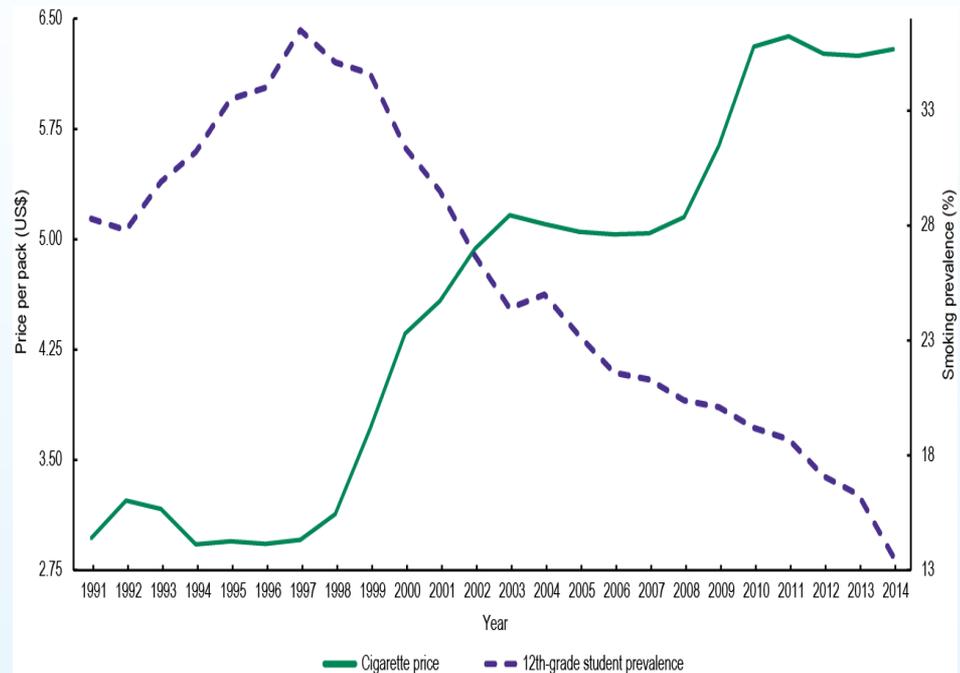
- Significantly increasing the excise tax and price of tobacco products is the **single most consistently effective tool for reducing tobacco use**.
- It leads some current users to quit, prevents potential users from initiating use, and reduces consumption among current users.
- In HICs, estimates of price elasticity of demand range from  $-0.2$  to  $-0.6$ , clustering around  $-0.4$ . In LMICs, elasticity estimates range from  $-0.2$  to  $-0.8$ , clustering around  $-0.5$ .



# Raising Tobacco Taxes: A Critical Strategy

- Young people and people with low incomes are generally more responsive to changes in prices of tobacco products.
- Demand for tobacco products is at least as responsive and often more responsive to price in low- and middle-income countries (LMICs) as it is in high income countries (HICs).
- Taxes on tobacco products tend to be higher in HICs than in LMICs.

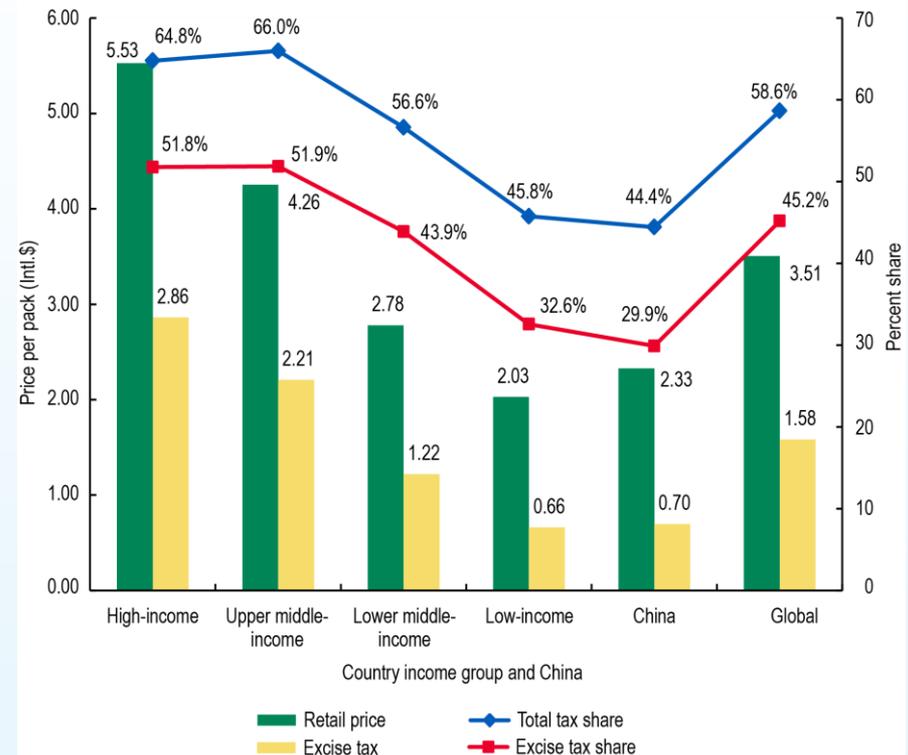
**Inflation-Adjusted Cigarette Prices and Prevalence of Youth Smoking in the United States, 1991–2014**



# Raising Tobacco Taxes: A Critical Strategy

- Though highly cost-effective in reducing tobacco use, increased tobacco taxation is **the least implemented intervention**
- Only **10% of the world's population** is covered by taxation policies that are judged to be at the highest level of enforcement, compared to other tobacco control policies
- **There is big room for improvement** – many LMICs, as well as China, have excise tax shares below 50%

Price per Pack in International Dollar Purchasing Power Parity (PPP) of Most Popular Brand and the Share of Excise and Total Tax in Price, by Country Income Group, 2014



# Tax Structure Also Matters

Figure 5.3 Price per Pack in International Dollar Purchasing Power Parity (PPP) and the Share of Excise and Total Tax in Price, by Tax Structure, 2014



Note: Averages were weighted by number of current cigarette smokers in each country.

Source: Based on data from World Health Organization 2015.<sup>9</sup>

- Governments apply a variety of tobacco taxes, using different tax structures.
- Relying on import duties to generate revenue is not an effective tax policy and does not substantially affect public health.
- **Simpler is better** - reliance on high, uniform, and specific excise taxes will have the greatest public health impact.

## Challenges to increasing tobacco taxes

- Tobacco Industry **SCARE** tactics and misinformation are the key hindrance to increasing tobacco taxes worldwide
- This is especially the case in low and middle income countries (LMICs), that often **lack technical capacity and/or political commitment**

**S** – Smuggling & Illicit Trade  
**C** – Court & Legal Challenges  
**A** – Anti-poor Rhetoric  
**R** – Revenue Reduction  
**E** – Employment Impact



## Efforts to Combat Illicit Trade

- The WHO FCTC Protocol to Eliminate the Illicit Trade in Tobacco Products, adopted in November 2012 and ratified by 25 countries (as of December 2016), **aims to eliminate all forms of illicit trade in tobacco products** by using a combination of national measures and international cooperation.

Countdown  
to entry into force of the Protocol

15

Parties needed

### Kenya implements excise tax management system to enhance tax collection and eliminate illicit trade

The Kenya Revenue Authority's Excisable Goods Management System features an enhanced excise stamp with multiple security layers for various stakeholders along the supply chain; production accounting; and track and trace modules. The system, used for both alcohol and tobacco products, also provides for online forecasting, application and processing of stamps, management of manufacturer and distributor tax accounts, a stock control module, and tax forecasting and business intelligence modules. This has led to reduced costs to government for tax compliance, faster access to stamps by manufacturers and distributors, and enhanced service delivery throughout the supply chain. This system enabled the Kenya Revenue Authority to seize more than 300 000 illegal products from about 900 outlets and to prosecute more than 150 offenders between February and June 2014. Controls over the distribution chain and improved technologies such as these – as used by the

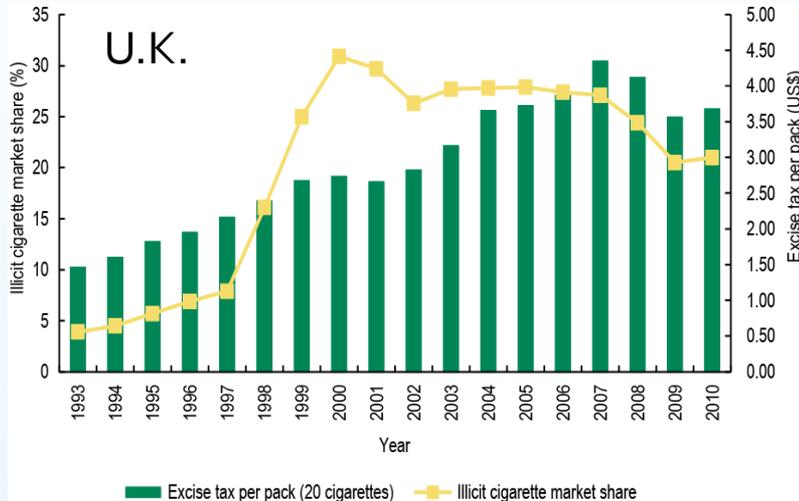


**Destruction of seized smuggled cigarettes by members of the Kenya Revenue Authority and the police.**

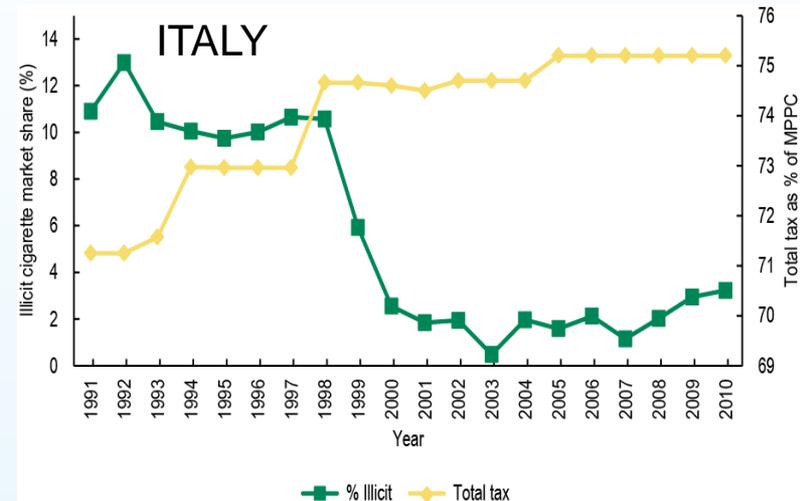
Kenya Revenue Authority – can improve tax administration and complement tobacco tax reforms.

# Country Examples

- Illicit trade can be successfully addressed even when tobacco taxes and prices are raised:



**Cigarette Taxes and *ESTIMATED* Illicit Cigarette Market Share, United Kingdom, 1993–2010**



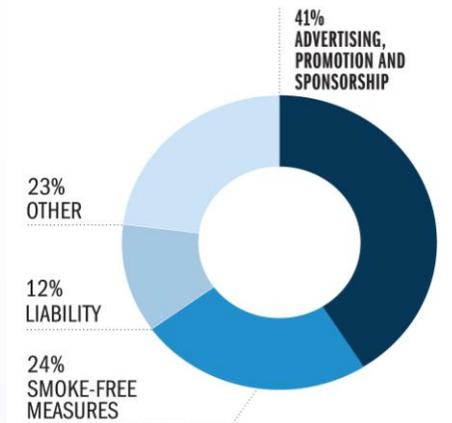
**Illicit Cigarette Market Share and Percentage of Most Popular Price Category Accounted for by Taxes, Italy, 1991–2010**

**The key is commitment, proper enforcement, and cracking down on corruption**

# Court and Legal Challenges by TI

Selected countries that had tobacco control policies recently challenged and/or litigated by the tobacco industry:

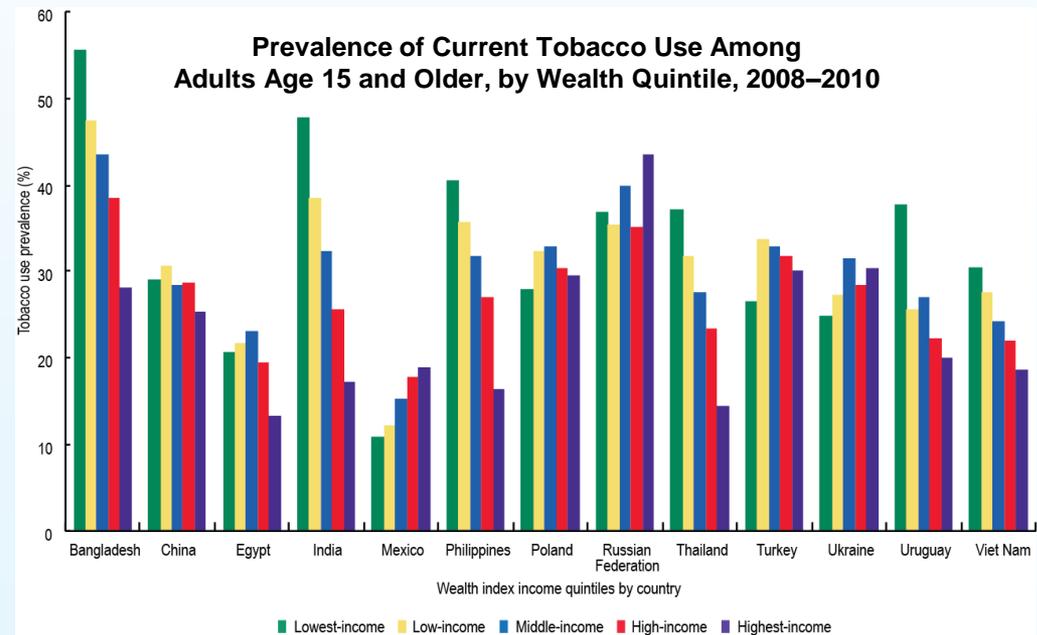
- |               |              |
|---------------|--------------|
| United States | Indonesia    |
| EU            | France       |
| Norway        | Canada       |
| Peru          | South Korea  |
| Brazil        | Australia    |
| Uruguay       | South Africa |
| Philippines   | India        |
| Pakistan      | Sri Lanka    |



TOBACCO CONTROL TOPIC	# CASES
ADVERTISING, PROMOTION AND SPONSORSHIP	245
SMOKEFREE MEASURES	146
LIABILITY	69
CONTENTS AND DISCLOSURES MEASURES	45
PACKAGING AND LABELING MEASURES	26
PRICE AND TAX MEASURES	16
ILLICIT TRADE	13
CESSATION	9
PROTECTION OF ENVIRONMENT	9
SALES TO OR BY MINORS	8
INDUSTRY INTERFERENCE	8
ALTERNATIVE ACTIVITIES	2
EDUCATION	0
<b>TOTAL # UNIQUE CASES</b>	<b>596</b>

# Increasing Tobacco Taxes is NOT Anti-Poor

- Tobacco use is concentrated among the poor and other vulnerable groups and accounts for a significant share of the health disparities between the rich and the poor.
- It is increasingly concentrated in LMICs and within most countries, among the lower socioeconomic status populations.
- Lower income populations often respond more to tobacco tax and price increases than higher income populations.
- Significant tobacco tax and price increases can help reduce the health disparities resulting from tobacco use.



# The Vicious Cycle of Tobacco and Poverty

- Poverty is exacerbated by increased health care costs, reduced incomes, decreased productivity, and diversion of limited family resources from basic needs.
- By reducing tobacco use among the poor, tobacco control policies can help break the cyclical relationship between tobacco use and poverty.
- Tobacco control efforts that are integrated with other public health and development policies can improve the overall health of the poor and can help achieve the Sustainable Development Goals.



# Increasing Tobacco Taxes Generates Revenues

- The Addis Ababa Action Agenda recognized that:  
*“... price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing development in many countries”*
- It is estimated that governments collected around **US\$ 269 billion in tobacco excise revenues** in 2013-2014, but increased taxes can bring more revenue to meet the SDGs
- Tobacco taxation offers a win-win policy option in both health and revenues
- WHO FCTC implementation is a target of the SDGs



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TIME FOR GLOBAL ACTION

## Higher tobacco taxes in the Philippines are a win-win for both health and revenues

In 2012, soon after guidelines were issued for implementing WHO FCTC Article 6 (Price and tax measures to reduce the demand for tobacco), the Philippines passed its landmark Sin Tax Reform Law. This legislation, which became effective on 1 January 2013, simplified what had been a complex tobacco excise tax structure and increased excise rates by as much as 341% (for low-priced brands) compared to those of the previous year.

The tax reforms were promoted primarily as a public health measure with attendant revenue implications, based on the fact that annual losses to the economy related to tobacco use were at least 177 billion Philippines pesos (PHP) (US\$ 4.2 billion), compared to annual tobacco excise revenues of only PHP 32.9 billion (US\$ 779.1 million) in 2012. Prior to the law's passage, tobacco excise revenues for 2013 were projected at PHP 52 billion (US\$ 1.2 billion), but actual tobacco excise collections that year were PHP 70.4 billion (US\$ 1.6 billion) – an increase of 114% in its first year of implementation.

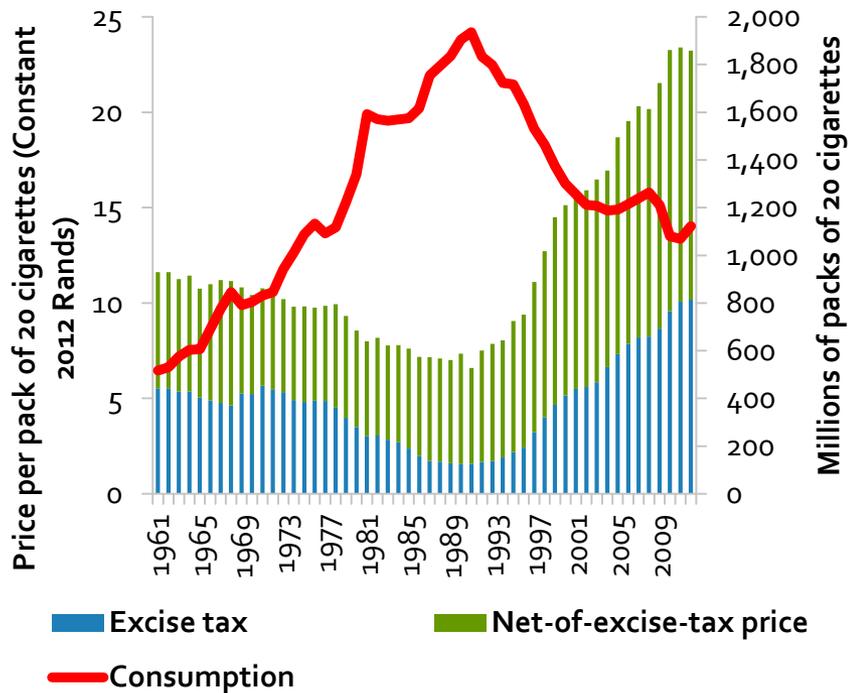
Of this amount, the additional revenues totalled PHP 41.8 billion (US\$ 984.7 million), far exceeding the projected revenue-increase target of PHP 23.4 billion (US\$ 551.2 million). A national survey in 2009 showed that 28.3% of adults aged over 15 years smoked, with nearly half of men and one in 10 women being current smokers. With such a substantial increase in tobacco tax, an upcoming national survey is

expected to show its impact on smoking prevalence. In addition, the incremental revenues generated from the Sin Tax Law are earmarked to ensure a source of sustainable financing for the country's Universal Health Care Programme. Incremental revenues generated by the Sin Tax Law enabled the National Government to subsidize the health insurance premiums of 14.7 million poor members in 2014, up from only 5.2 poor members of the programme registered in 2013. These members and their dependents account for about half of the Philippines' population.

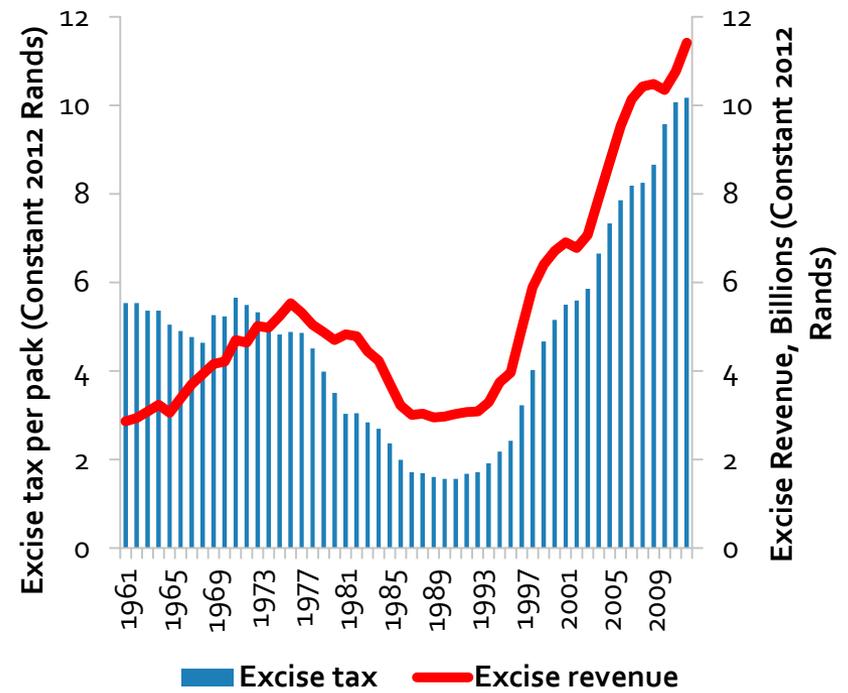


**President Benigno S. Aquino III signs into law Republic Act 10351, the Sin Tax Reform Law of 2012.**

# South Africa: Win for Revenues, Win for Health



**Tax increases that result in price increases and reduce consumption**



**Tax increases also increase revenue**

## Potential Gains in Health and Revenue

Raising tobacco excise tax by 1 International Dollar (about US\$ 0.80) in all countries would:



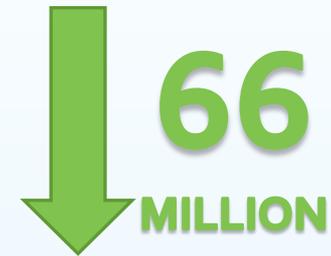
Increase average cigarette prices by 42% globally



Increase excise revenue by 47%, representing an extra US\$ 141 billion



Global increase in public health expenditures



Reduce smoking prevalence by 9%, representing 66M fewer smokers

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## Tobacco Control does not harm economies

- The number of jobs that depend on tobacco – tobacco growing, manufacturing and distribution – is low and has been falling in most countries due to new production technologies, a shift from state to private ownership, and globalization.
- In most countries, tobacco control policies will have either no effect or a net positive effect on overall employment because any tobacco-related job losses will be offset by job gains in other sectors.
- In the few countries that depend on tobacco exports, it could lead to job losses, but these are expected to be small, gradual, and unlikely to affect the current generation of tobacco farmers.
- Evidence from HICs and LMICs shows that smoke-free policies do not adversely affect the hospitality sector.

## CONCLUDING REMARKS

- The global health and economic burden on tobacco use is enormous and is increasingly borne by LMICs. Governments must act decisively to reduce this burden.
  - Significant tobacco tax and price increases is the most cost effective way to increase revenues and reduce tobacco use. It is high time government's use it proactively.
  - It is a win for revenues, a win for public health, reduces the disproportionate burden that tobacco use imposes on the poor and is essential for sustainable development.
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Thank you for your attention.